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Restaurant Business

March 20, 1984 VOL. 83, NO. 5

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Cover Design by Joan Dworkin

Food products shown on the cover are: Arby's breakfast croissant, Arby's bacon and cheddar roast beef, Long John Silver's baked fish, Burger King's pita salad sandwich, and Noble Roman's pizza.

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Restaurant Business Cover Story

Franchising:

Maturing Menus and Markets

The 19th Annual Franchising Issue compiled by the editors of *Restaurant Business* features a comprehensive analysis of the 10 major menu segments of the franchise restaurant market. Seafood, pizza, Mexican, and sandwich continue to be leading growth segments in terms of sales and units. The hamburger segment continues to account for almost half of total market sales. Other segment profiles include steak, chicken, pancake, donut, and ice cream. This special report also includes current data on restaurant franchising just released by the U.S. Department of Commerce and prepared by Andrew Kostecka, plus a listing of the Top 30 franchise systems by sales and units.

Ice Cream

Superpremium ice creams and Italian-style gelato have entered the ice cream market, and older chains are offering new products to complete.

Total sales for the nearly 6,000 franchised ice cream stores have grown about nine percent annually over the last few years to reach nearly $950 million in 1983. Superpremium and gelato are important terms in the market, symbolizing strong new competitive forces. "Superpremium" refers to ice cream made from all natural ingredients, with no air pumped in, and butterfat in excess of 15 percent.

Frusen Glädje began establishing its presence three and a half years ago in supermarkets. In spring 1983, it launched its national franchise effort with the opening of dipping stores in New York City, Baltimore, and Dallas. Over 50 units are now open.

Häagen-Dazs has developed since 1970 from a similar supermarket base, growing in popularity by word of mouth. The first dipping store opened in Brooklyn in 1970, and enthusiastic response led to the growth of a 300-plus franchise system.

Pillsbury Corp. acquired Häagen-Dazs in mid-1983, and the acquisition is expected to produce more rapid expansion.

Häagen-Dazs had broadened its customer appeal with two types of operations: dipping stores, and larger dessert shop operations. Both offer a variety of dessert and pastry items, cappuccino and espresso.

Bressler's 33 Flavors hopes to role out its own superpremium offering, now under test by early 1985.

Swensen's Ice Cream Company, of Phoenix, is also testing a superpremium line, according to vice president of marketing and public relations Howard Englehardt.

Baskin-Robbins is one of the few established ice cream franchises not exploring superpremiums. Instead, it is seeking acceptance of a special diet line on a state-by-state basis. The company's Marilyn Novak believes the low–fat, low–calorie frozen dessert product will be aided in marketing by the new research reports on the health problems associated with cholesterol.

All of the chains are reporting steady growth in number of units and sales volumes.

Bressler's has been relocating older units to newer, more profitable locations over the last few years, and taking out unprofitable units.

Swensen's anticipates adding another 50 units in 1984, to the 340 now operating in 34 states and seven other countries.

Baskin-Robbins reported retail sales of $455 million in 1983, up from $423 million in the previous year. It plans to open 137 new stores in 1984, and another 200 in 1985.

Farrell's Ice Cream Parlour Restaurants, Inc., headquartered in San Francisco, is also seeing a need to attract a more adult audience. As a first step, it is testing a new design in two outlets in Sacramento, Cal., using an Americana theme to replace its "gay nineties" motif.

Gelato, or Italian-style, ice cream, is the new kid on the block this year. It differs from ice cream in that it has a much lower butterfat content—eight percent—compared with 15 to 18 percent for superpremium ice creams.

Gelato Classico is one of the first franchises to enter the market. Operating in San Francisco since 1976, it now has 15 locations in Michigan, Arizona, and Southern California.

Gelaré, Inc., of Encinitas, California, has seven units open and seven more under construction. It is in its third year of franchising, and president James Swift sees excellent growth potential. Like Häagen-Dazs, Gelaré units offer pastry items including six "European quality" tarts and cakes.

A similar phenomenon seems to have occurred to yogurt franchisors, one of the first competitors to the traditional ice cream market.

As Sam Holt, founder of Zack's Famous Frozen Yogurt, Inc., describes it, regional yogurt chains have a good chance of survival by producing a product which combines the taste of a premium soft-serve ice cream with the health benefits of yogurt.

Originally, he explains, yogurt franchisors tried a traditional tart-tasting product which had only limited appeal to health food faddists. Since making the taste change in its product line, Zack's, founded in 1977, has grown to a 35-unit chain, branching out from its Metairie/New Orleans, Louisiana base.

I Can't Believe It's Yogurt (ICBIY) is expanding around a Dallas base with a similar philosophy. Its "Softie" product tastes like soft-serve ice cream, with half the calories, four-fifths less fat, and one-third more protein. The product comes in 17 flavors, with 19 toppings ranging from fresh fruit to nuts and candy-coated chocolates.

—Carol Lynn Tiegs

ICE CREAM STORES *(31 franchisors)*

	Sales ($000)			Units		
	Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
1982	856,466	51,713	804,753	5,547	163	5,384
1983*	917,326	52,491	864,835	5,847	161	5,686
1984*	998,714	57,999	940,715	6,193	172	6,021

*Estimated by respondents.

Donut

Growth is strong in the donut segment, where an array of new products and stable retail prices fend off increasing breakfast competition.

Reports are positive from the donut segment of fast food franchising. The number of units is up over 2,300, and sales seem to be increasing at a steady rate of nine percent per year.

The market segment is dominated by Dunkin' Donuts, with 1,250 units in the U.S., and six foreign countries; and Mister Donut of America, a division of International Multifoods, with 578 franchised outlets, not including the franchise rights to 413 Mister Donuts sold in December 1983 to its Japanese franchise operator, Duskin Co., Ltd.

At the same time, however, there appears to be plenty of room for strong, expanding regional chains such as Krispy Kreme in the Southeast, or Donutland expanding from a base in Iowa.

"This has been our best year of expansion ever," reports Fred Huggins, vice president, Mister Donut. "We will open 70 new shops in 1984, and expect to continue at this level into the foreseeable future."

Reasons for strong expansion include the stabilization of interest rates at an agreeable level, and a corporate reorganization and planning process which has resulted in over half of new expansion being undertaken by existing franchisees.

Huggins indicates that Mister Donut average unit sales have been rising continually, partly as a result of stronger local marketing efforts. This includes spending more of the marketing dollar at the individual unit level, and organizing franchisees into ADI marketing regions to take the fullest advantage of group advertising purchasing power.

The chain will be making some modest decor changes, and adding drive-thru windows to units in an effort to keep sales climbing.

Expansion for the Minneapolis-based franchisor will occur mostly from Denver east, with major emphasis on the Mid-Atlantic and Southeast regions.

While year-end figures have not been released, Dunkin' Donuts national franchise sales manager Michael Kalleres says 1983 was an "outstanding year" and the company expects better in 1984. It remains on schedule with expansion plans calling for the addition of 100 new units per year over the next five years, 90 percent of which will be franchised.

In addition to the aggressive development of new shops, Dunkin' Donuts' growth plan for the 80s calls for increased advertising, with $100 million budgeted for that purpose over a five-year period. Continued new product introduction is also planned. A new line of cookies tested "very successfully," according to Kalleres and is being rolled out nationally.

With 33 years in the business, Dunkin' Donuts is also paying attention to remodeling existing shops to make them more productive and appealing.

With 10 company, and 32 franchised stores, Donutland, Inc., continues to expand around its Iowa base into Illinois, Wisconsin, and the Dakotas. Franchise inquiries are up, and 20 new sites are proposed for 1984. Older shops offer only donuts and coffee, but newer locations serve muffins, cookies, cakes and croissants, a trend it expects to continue.

Spudnuts, Inc., one of the oldest in the business (founded in 1939 in Salt Lake City) and billing itself as "The Upper Crust of the Donut World," has been working over the last several years to enhance its franchise offering.

Upgrades have included the addition to the menu of soup, spuffins (a muffin-type product), and ice cream, which has accounted for 10 percent of sales in test units without any advertising effort. The addition of drive-thru windows has also been effective in increasing unit volumes.

Spudnuts has developed a free standing prototype building, with average annual sales of around $240,000, and a second design for strip centers, with average annual sales volumes ranging between $180,000 and $200,000. Now with 40 franchised and three company-owned units, Spudnuts is reported to be seeking outside capital, possibly through acquisition, to fund franchise expansion.

Krispy Kreme Doughnut Co., based in North Carolina, is one of the few franchises sticking to its original menu concept. It tried adding baked goods and then rejected the idea. Many of the units also do business supplying area grocery stores, however, selling fried pies, dunkin' sticks, and a mini-donut product as well as yeast-raised and cake-type donuts.

Formerly owned by Beatrice Foods, Krispy Kreme was purchased two years ago by a group of its franchisees, headed by now-president Joseph McAleer. The new owners have put franchise expansion on hold, preferring to concentrate on market development in an established southeastern market area.

—Carol Lynn Tiegs

DONUT SHOPS *(20 franchisors)*

	Sales ($000)			Units		
	Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
1982	679,837	88,687	591,150	2,221	226	1,995
1983*	741,135	92,902	648,233	2,296	224	2,072
1984*	826,094	97,682	728,412	2,497	224	2,273

*Estimated by respondents.

Restaurant franchising in the economy

"Franchising in the Economy, 1982-84," is a comprehensive study that presents sales and statistical data about franchising in the U.S. It is issued annually by the U.S. Department of Commerce, and prepared by Andrew Kostecka.

Franchising is continuing to make a significant contribution to the American economy, not only because it enables rapid growth of the franchisor, but also because it vastly increases the likelihood of success on the part of the small businessperson, namely the franchisee. It offers both a degree of flexibility and security not possible under other marketing systems.

Franchising is perhaps the only form of business organization which, by its very nature, tends to create new business units. It helps small businesses to compete with the giants, since franchisees have a good chance to survive using the franchisor's know-how and trademark or servicemark; it also offers a unique opportunity to people with limited capital experience.

Franchise sales of goods and services by all franchising companies are expected to reach $457 billion in 1984, an increase of nine percent over the estimated sales reported for 1983, while the number of establishments will reach 462,000 in 1984, up from 445,000 in 1983. Employment in franchising, including part-time workers and working proprietors, was 4.9 million in 1982, and will probably reach more than 5.3 million by the end of 1984.

Product and tradename

Product and tradename franchising began in the United States as an independent sales relationship between supplier and dealer in which the dealer acquired some of the identity of the supplier. The franchised dealer concentrates on one company's product line and to some extent identifies his business with that company. Typical of this segment are automobile and truck dealers, gasoline service stations, and soft drink bottlers. Together they dominate the franchise field, accounting for an estimated 73 percent of all franchise sales for 1984.

Total sales by product and tradename franchisors are expected to reach an estimated $332 billion in 1984 compared with $308 billion in 1983 and $277 billion in 1982. As in the past 10 years, the number of establishments of product and tradename franchisors continue to decline. The attrition rate of automobile and truck dealers and that of soft drink bottlers has slowed but the rate of closings for gasoline service stations remains high. The number of these establishments is expected to decline in 1984 to 156,000 from 163,000 in 1983 and 171,000 in 1982.

Business format franchising

Business format franchising is characterized by an ongoing business relationship between franchisor and franchisee that includes not only the product, service, and trademark, but the entire business format itself: a marketing strategy and plan, operating manuals and standards, quality control, and continuing two-way communications.

Restaurants, non-food retailing, personal and business services, rental services, real estate services, and a long list of other service businesses fall into the category of business format franchising.

Business format franchising has been responsible for much of the growth of franchising in the United States since 1950.

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The volume of sales and the number of units owned or franchised by business format franchisors have been steadily on the rise for the past 12 years. Sales of business format franchisors are expected to be almost $125 billion in 1984, compared with $110 billion in 1983 and $99 in 1982. In contrast to product and trade-name franchises, the number of establishments of business format franchisors is expected to increase to over 306,000 in 1984, compared to 283,000 in 1983 and 268,000 in 1982.

Large franchisors—those with 1,000 or more units each—continue to dominate business format franchising, with 57 companies accounting for 49 percent of all sales and for 53 percent of all establishments in 1982. The total number of outlets reported by these large franchisors stood at 142,163, with sales of $49 billion. Fourteen of these large franchisors were engaged in restaurants and 12 were in automotive products and services.

Sales of products and services by business format franchisors to their franchisees totaled $6.3 billion in 1982 and might rise to about $8 billion by 1984. Franchisor sales of merchandise for resale were largest in the non-food retailing category—$2.3 billion in 1982—followed by automotive products and services at $1.9 billion. Franchising sales of food ingredients amounted to $1.4

RESTAURANT FRANCHISING, 1982-1984
Sales

Major Activity	Firms	1982 Total	1982 Company-Owned	1982 Franchisee-Owned
Chicken	32	$ 2,947,512	$ 1,109,122	$ 1,838,390
Hamburgers, Franks Roast Beef	102	16,862,890	4,482,780	12,380,110
Pizza	106	3,740,072	1,419,723	2,320,349
Mexican	33	1,258,054	645,034	613,020
Seafood	14	1,372,485	755,800	616,685
Pancakes, Waffles	15	893,625	277,994	615,631
Steak, Full Menu	110	6,708,742	3,229,808	3,478,844
Sandwich and Other	46	375,138	64,717	310,421
Total	458	34,158,518	11,985,068	22,173,450

Data estimated by respondents for 1983 and 1984

RESTAURANT FRANCHISING, 1982-1984
Number of Units

Major Activity	Firms	1982 Total	1982 Company-Owned	1982 Franchisee-Owned
Chicken	32	7,773	2,591	5,182
Hamburgers, Franks Roast Beef	102	27,285	6,100	21,185
Pizza	106	10,629	3,700	6,929
Mexican	33	3,059	1,399	1,660
Seafood	14	2,840	1,312	1,528
Pancakes, Waffles	15	1,645	516	1,129
Steak, Full Menu	110	9,135	4,020	5,115
Sandwich and Other	46	1,810	379	1,431
Total	458	64,176	20,017	44,150

Data estimated by respondents for 1983 and 1984

U.S. FRANCHISED RESTAURANTS, 1982-1984 SUMMARY

Item	1982	1983	1984	Percent Change 1982-83	Percent Change 1983-84
Company-owned	20,017	21,351	23,087	6.7	8.1
Franchisee-owned	44,159	47,372	51,755	7.3	9.3
Total number of establishments:	64,176	68,723	74,842	7.1	8.9
Company-owned	11,985,068	13,536,111	15,360,844	12.9	13.5
Franchisee-owned	22,173,450	25,128,106	28,786,765	13.3	14.6
Total sales of products and services: ($000)	34,158,518	38,664,217	44,147,609	13.2	14.2
Merchandise (non-food) for resale	60,356	65,852	71,956	9.1	9.3
Supplies (such as paper goods, etc.)	197,305	213,031	234,282	8.0	10.0
Food ingredients	701,442	777,326	863,314	10.8	11.1
Other	29,547	32,466	36,318	9.9	11.9
Total sales of products and services by franchisors to franchisees: ($000)	988,650	1,088,675	1,205,870	10.1	10.8

Data estimated by respondents for 1983 and 1984

	1983			1984	
Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
$ 3,569,907	$ 1,347,231	$ 2,222,676	$ 4,410,227	$ 1,652,585	$ 2,757,642
18,961,299	4,991,981	13,969,318	21,315,390	5,634,977	15,680,413
4,412,068	1,705,236	2,706,832	5,165,281	1,916,772	3,248,509
1,500,828	781,052	719,776	1,734,457	906,448	828,009
1,638,150	903,550	734,600	1,964,300	1,097,975	866,325
873,233	276,422	596,811	929,281	294,166	635,115
7,265,923	3,454,247	3,811,676	8,073,079	3,761,838	4,311,241
442,809	76,392	366,417	555,594	96,083	459,511
38,664,217	13,536,111	25,128,106	44,147,609	15,360,844	28,786,765

	1983			1984	
Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
8,528	2,856	5,672	9,489	3,197	6,292
28,563	6,430	22,133	30,658	6,952	23,706
12,042	4,099	7,943	13,497	4,464	9,033
3,374	1,505	1,869	3,683	1,611	2,072
3,060	1,447	1,613	3,366	1,602	1,764
1,640	514	1,126	1,698	508	1,190
9,429	4,101	5,328	9,927	4,294	5,633
2,087	399	1,688	2,524	459	2,065
68,723	21,351	47,372	74,842	23,087	51,755

billion in 1982 of which $701 million went to restaurants and $588 million to food retailers other than convenience stores.

Trends

Conversion franchising, a challenge to rising costs and increased competition, will show considerable strength in the 1980s. Conversion franchising refers to the conversion of an independent business to a franchise. The idea is not new, and in the past has been used extensively in real estate franchising. Movement to conversion franchising will be evident in many areas, especially in construction, home repair and remodeling services, all types of business services, non-food retailing, and restaurants.

Over the next few years we should see a stepped-up effort to bridge the "partnership" relationship between franchisor and franchisee. Franchisees are the most important part of the entire franchising system, and they are a franchising company's most valuable asset.

The relationship between franchisors and franchisees is the key element to the present and future success of a company, because their performances, both as individual businesspersons and as part of a coordinated organization, determines whether a franchising company will compete, grow, and be profitable.

A franchisor can develop superior procedures and programs, but they are meaningless unless franchisees put them into operation in the marketplace.

Another emerging trend evident in franchising is the entry of women into franchising, in numbers larger than ever before, both as franchisors and franchisees.

Franchising offers new opportunities for women, who are entering the professional and management ranks and want to be a part of the business world or invest in a business career. Starting their own businesses through franchising lessens the risk factors of women with little or no business experience.

Furthermore, women often excel in businesses that cater specifically to the needs or interests of other women.

The changing American household and the new status of working women in society will influence the growth of franchises particularly in the non-food retail stores that provide a variety of services for the home.

From 1984 to 1987, personal consumption expenditures are expected to grow at a 2 9 percent annual rate, durables purchases at 4.9 percent, and nondurables at 2.3 percent, setting the stage for increased retail spending.

Accelerated growth should be seen in franchised stores providing home furnishings, decorating, picture framing, and other types of accessories for the home. Growth will also take place in all types of general merchandise, video, and electronic stores.

In the past, new technologies had the greatest impact on the assembly line. Today, the new computer technology is rapidly spreading to the service sector, and especially to franchising. The computer industry is establishing new businesses in the form of franchised retail stores and this trend will continue.

Although competition will intensify and other distribution channels emerge, franchisors of computer stores will focus on two separate markets. One is the computer store specializing in home computers, video games, software, and hardware, and the other is the store providing for the needs of business with support services and systems.

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TOP 30 FRANCHISE RESTAURANT SYSTEMS

1982-83 systemwide sales by company and franchise (sales in millions of dollars)

Franchise system	1982		1983		'82-'83 % Change
McDonald's	$7,809.	(2,095c/5,714f)	$8,600.	(2,170c/6,430f)**	10
Burger King*	$2,360.	(354c/2,006f)	$2,810.	(422c/2,388f)	19
Kentucky Fried Chicken	$2,382.	(660c/1,722f)**	$2,623	(778c/1,845f)**	10
Hardee's*	$1,115.	(526c/589f)**	$1,718***	(807c/911f)**	54
Wendy's	$1,630.	(550c/1,080f)	$1,800	(617c/1,183f)**	10
Pizza Hut	$1,407.**	(695c/712f)	$1,671**	(797c/874f)	19
Dairy Queen*	$1,198.	(2c/1,196f)	$1,288.	(3c/1,285f)	8
Big Boy	$940.	(195c/745f)	$1,000.	(178.5c/821.5f)	6
Taco Bell	$577.2**	(324.8c/252.4f)	$693**	(365.2c/327.8f)	20
Arby's	$577.8	(72.1c/505.7f)	$650.	(72.8c/577.2f)	12
Western Sizzlin'*	$452.8**	(3.1c/449.7f)	$473.8**	(4.1c/469.7f)	5
Church's*	$504.3	(423.8c/80.5f)	$613.9**	(522.2c/91.7f)	22
Long John Silver's*	$516.	(314.9c/201.1f)	$554.5	(337.4c/217.1f)	7
Ponderosa*	$516.6	(360.5c/156.1f)	$554.	(384.7c/169.3f)	7
Jack In The Box*	$485.**	(478c/7f)	$546.7	(22.4c/524.3f)	13
Dunkin' Donuts*	$434.7	(26.7c/408f)	$475.8	(27.2c/448.6f)	9
Baskin Robbins*	$423.	(29c/394f)**	$455.	(70c/385f)**	8
Howard Johnson's	$452.**	(327c/125f)	$435.1**	(313.6c/121.5f)	(4)
Godfather's Pizza	$313.	(75c/238f)	$400.	(92c/308f)**	28
Captain D's*	$195.4	(103.3c/92.1f)	$215.7	(116.5c/99.2f)	10
Bonanza*	$366.	(0c/366f)	$389.	(2.7c/386.3)**	6
Domino's Pizza	$232.1	(71.9c/160.2f)	$365.7	(106c/259.7f)	58
Sizzler*	$323.9	(104.7c/219.2f)	$353.7	(118.7c/235f)	9
Roy Rogers	$256.**	(189.4c/66.6f)	$341.7**	(256.3c/85.4)	33
Perkins' Cake & Steak	$270.8	(92.6c/178.2f)	$287.9	(103.4c/184.5f)	6
Sonic Drive Ins*	$274.7	(24.7c/250f)	$262.6	(21.8c/240.8f)	4
Popeyes Famous Fried Chicken*	$173.	(48c/125f)	$240.	(55c.185f)	39
Pizza Inn*	$228.9	(102.3c/126.6f)	$236.6	(105.9c/130.7f)	3
International House of Pancakes	$224.1	(63.1c/161f)**	$226.	(58.2c/167.8f)**	.8
Chi-Chi's*	$115.5**	(48.3c/67.2f)	$198.5**	(90.5c/108f)	72

1982-83 systemwide units by company and franchise

Franchise system	1982		1983		'82-'83 % Change
McDonald's	7,259	(1,846c/5,413f)	7,778	(1,949c/5,829f)**	7
Burger King*	3,255	(488c/2,767f)	3,502	(525c/2,977f)	8
Kentucky Fried Chicken	6,584	(1,291c/5,293f)	6,609	(1,524c/5,085f)	.4
Hardee's*	1,465	(555c/910f)	2,154***	(840c/1,314f)	47
Wendy's	2,430	(827c/1,603f)	2,671	(921c/1,750f)	10
Pizza Hut	4,101	(1,957c/2,144f)	4,253	(2,029c/2,224f)	4
Dairy Queen*	4,754	(6c/4,748f)	4,751	(6c/4,745f)	(.06)
Big Boy	1,180	(211c/969f)	1,230	(219c/1,011f)	4
Taco Bell	1,489	(814c/675f)	1,663	(849c/814f)	12
Arby's	1,217	(150c/1,067f)	1,270	(163c/1,107f)	4
Western Sizzlin'*	575	(4c/571f)	575**	(5c/570f)	0
Church's*	1,379	(1,137c/242f)	1,446	(1,191c/255f)	5
Long John Silver's*	1,247	(738c/509f)	1,313	(782c/531f)	5
Ponderosa*	691	(459c/232f)	682	(447c/235f)	(1)
Jack In The Box*	784	(764c/20f)	778	(734c/44f)	(.8)
Dunkin' Donuts*	1,073	(66c/1,007f)	1,250	(65c/1,185f)	16
Baskin Robbins*	2,770	(370c/2,400f)	2,907	(507c/2,400f)	5
Howard Johnson's	805	(587c/218f)	749	(533c/216f)	(7)
Godfather's Pizza	776	(184c/592f)	850	(190c/660f)	10
Captain D's*	405	(211c/194f)	426	(229c/197f)	5
Bonanza*	579	(0c/579f)	576	(8c/568f)	(.5)
Domino's Pizza	834	(281c/553f)	1,188	(363c/825f)	42
Sizzler*	448	(133c/315f)	439	(137c/302f)	(2)
Roy Rogers	438	(326c/112f)	497	(375c/122f)	13
Perkins' Cake & Steak	311	(94c/217f	311	(94c/217f)	0
Sonic Drive Ins*	1,000	(114c/886f)	975	(96c/879f)	(2.5)
Popeyes Famous Fried Chicken*	309	(65c/244f)	400	(70c/330f)	29
Pizza Inn*	714	(275c/439f)	714	(291c/423f)	0
International House of Pancakes	466	(132c/334f)	466	(107c/359f)**	0
Chi-Chi's*	55	(23c/32f)	92	(44c/48f)	67

**Fiscal year-end results (remainder are calendar year-end results)*
***Estimated by* Restaurant Business
****includes Burger Chef*

Source: *Restaurant Business*

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Dental health care has become an integral part of franchising as franchised dental centers spread to all regions of the United States. This trend should continue to develop rapidly.

Franchised restaurants of all types, as in the past, will continue to be the most popular sector of franchising. Stepped-up activity will be seen in the upscaling of franchised restaurants in exterior and interior decor, service, and upscaling in quality and variety of food items served.

> Conversion franchising will show considerable strength for the rest of the decade.

Franchisors of restaurants, especially those whose major activity is pizza, were the fastest growing outlets, jumping from 66 franchisors in 1978 to 106 at the end of 1982. This trend is expected to continue for the next few years.

Franchises that specialize in automotive repairs will grow in many areas of the huge automotive aftermarket. This trend will continue to expand through the next decade.

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RESTAURANT FRANCHISING
GROWTH IN SALES, 1978-1983
(SALES:$000)

Major Activity	Total Sales			Company-owned			Franchisee-owned		
	$ 1978	$ 1983	% Change	$ 1978	$ 1983	% Change	$ 1978	$ 1983	% Change
Chicken	2,034,012	3,569,907	76	653,977	1,347,231	106	1,380,035	2,222,676	61
Hamburgers, Franks, Roast Beef	10,862,837	18,961,299	75	2,589,465	4,991,981	93	8,273,372	13,969,318	69
Pizza	1,735,279	4,412,068	154	696,364	1,705,236	145	1,038,915	2,706,832	160
Mexican	602,376	1,500,828	149	304,697	781,052	156	297,679	719,776	142
Seafood	563,827	1,638,150	190	216,486	903,550	317	347,341	734,600	111
Pancakes, Waffles	601,029	873,233	45	139,899	276,422	98	461,130	596,811	29
Steak, Full Menu	4,531,709	7,265,923	60	2,104,623	3,454,247	64	2,427,086	3,811,676	57
Sandwich and Other	169,719	442,809	161	28,034	76,392	172	141,685	366,417	159
Total	21,100,788	38,664,217	83	6,733,545	13,536,111	101	14,367,243	25,128,106	75

Estimated by survey respondents for 1983

Source: U.S. Dept. of Commerce, Restaurant Business

RESTAURANT FRANCHISING
GROWTH IN UNITS, 1978-1983

Major Activity	Total Units			Company-owned			Franchisee-owned		
	1978	1983	% Change	1978	1983	% Change	1978	1983	% Change
Chicken	6,708	8,528	27	1,870	2,856	53	4,838	5,672	17
Hamburgers, Franks, Roast Beef	26,038	28,563	10	4,648	6,430	38	21,390	22,133	3
Pizza	7,542	12,042	60	3,042	4,099	35	4,500	7,943	76
Mexican	2,329	3,374	45	993	1,505	52	1,336	1,869	40
Seafood	2,297	3,060	33	899	1,447	61	1,398	1,613	15
Pancakes, Waffles	1,441	1,640	14	363	514	42	1,078	1,126	4
Steak, Full Menu	7,924	9,429	19	3,479	4,101	18	4,445	5,328	20
Sandwich and Other	1,033	2,087	102	216	399	85	817	1,688	107
Total	55,312	68,723	24	15,510	21,351	38	39,802	47,372	19

Estimated by survey respondents for 1983

Source: U.S. Dept. of Commerce, Restaurant Business

Traditional sources of automotive repair are disappearing with the continuing decline of new car dealerships and gasoline service stations.

Other areas in franchising that bear watching over the next few years are retail telephone centers, automobile leasing, packaging and rapid delivery of parcels, home building, medical centers and health services, temporary help services, and business brokers. More franchising is also expected in printing and copying services, weight control centers, and hair salons for both men and women.

Several studies are being conducted analyzing the cost and relative benefits of existing franchise laws and regulations.

For instance, the Federal Trade Commission and state legislators across the country are reviewing franchise laws over which they have jurisdiction. The National Conference of Commissioners on Uniform State Laws will shortly begin drafting a proposed uniform franchise law.

Also, the North American Securities Administrators Association will draft a model Business Opportunities Sales Act which would encompass franchising. All these efforts are very likely to result in substantial changes in the country's franchising laws in the years ahead.

International markets

International franchising is a unique system mutually beneficial to importing and exporting countries alike. Penetration into foreign markets by U.S. franchisors continues to grow, thus enabling them to expand their business and gain international recognition of their services, tradenames, trademarks, and products.

American-style franchising has never been more competitive, and importing countries gain in several ways: new local entrepreneurs are created providing local employment; income is generated for local businesses that supply goods and services for operation of the local franchise; and innovative services and ideas are provided by U.S. franchisors while new methods of business management are introduced to franchisees.

> Franchising offers new opportunities for women who want to invest in a business. Starting their own businesses through franchising lessens the risk factors of women with little experience.

The Department of Commerce survey reveals that 295 U.S. franchising companies operated 23,524 outlets in foreign countries in 1982; this compares with 288 franchisors with 21,416 outlets in 1981.

Furthermore, an additional 117 companies have indicated that they are considering extending their U.S. operations to foreign countries by the end of 1985. This interest has been expressed mostly by small- and medium-sized franchisors, marketing a variety of services and products.

Of the companies seeking foreign markets, 30 are franchisors of business aids and services and 24 are restaurant franchisors.

The form of entry into foreign markets varies considerably, with many firms using more than one method in conducting foreign operations.

Of the 295 franchisors doing business in foreign countries in 1982, 287 sold their outlets to franchisees—either directly or through a master licensee who received the right to develop the franchisor's system in a specific country or region—26 operated joint ventures, and 26 had some company operated units.

Twenty-four of these companies derived 10 percent or more of their income from foreign operations, 21 firms received between 5 and 9 percent, 88 between 1 and 4 percent, and 162 received less than 1 percent.

Canada continues to be the dominant market for U.S. franchisors despite its declining share of U.S. foreign outlets. In 1982, 31 percent of all U.S. foreign franchised outlets were located in Canada, down from a high of 46 percent in 1971. A total of 213 U.S. franchising firms with 7,278 units operated in Canada in 1982, predominately in non-food retailing (1,249), restaurants of all types (1,056), and automotive products and services (854).

Japan continues to be the second-largest market for U.S. franchisors with a total of 4,990 units, of which 70 percent represent various food categories such as restaurants, donut shops, ice cream stores, and convenience food stores.

The United Kingdom ranks third with 2,083 outlets, while 3,649 outlets are located in all of Continental Europe.

Changes in ownership

Changes in ownership in 1982 involved 9,722 units belonging to 798 franchisors. These changes included conversions to franchisee-owned or to company-owned operations, and discontinuation of either company-owned or franchisee-owned outlets.

Specifically, 707 outlets were repurchased for company-ownership, while 1,057 were converted to franchisee-ownership; as in previous years, the largest portion of these changes occurred in the restaurant sector of franchising. The number of establishments discontinued in 1982 stood at 7,958, of which 1,106 were company-owned and 6,852 franchisee-owned.

Since 1975, the trend in franchising has reflected an increase in conversions of company-owned units to franchisee-ownership, and as in previous years the survey shows that most units repurchased for company-ownership were temporary buybacks for a multitude of reasons, the least of which was the company's desire to withdraw from the franchise system or to operate these units permanently itself.

Failures and departures

A total of 57 franchisors operating 1,597 outlets failed during 1983, according to the U.S. Department of

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Commerce survey. The volume of 1982 sales represented by the failed firms amounted to $428 million, of which the franchisee-owned portion was $385 million. Compared to total business format franchising sales of $99 billion in 1982, the lost volume (0.4 percent) should be regarded as insignificant.

In addition, 84 companies decided in 1983 to discontinue franchising as a method of doing business; these companies operated 4,551 units in 1982 with $943 million in sales, of which 2,734 outlets with $233 million in sales were franchisee-owned.

Renewals and terminations

In 1982, 11,415 franchise arrangements came up for renewal, of which 10,061, or 88 percent, were renewed and 1,354 were not. Of the latter, 513 were not renewed because of objections by the franchisor, 404 because the franchisee did not wish to renew, and 437 upon mutual agreement.

There were 6,180 terminations of franchise agreements in 1982, of which 2,473 were terminated by franchisors: 1,358 for nonpayment of royalties or other financial obligations, 166 for the franchisee's failure to comply with quality control standards, and 949 for other reasons not identified.

> Penetration into foreign markets by U.S. franchisors continues to grow, enabling them to gain international recognition for their products and services.

Franchisees were responsible for terminating 3,097 franchise agreements, while an additional 610 were terminated by mutual consent.

A total of 3,082 franchisees in 1982 asked permission from their franchisors to sell their franchises to other businesspersons; all but 42 transfers were approved.

Retail franchising

Consumer spending was strong in 1983, with purchases of durable consumer goods rising dramatically. Consumer confidence increased rapidly as consumer installment credit outstanding relative to personal income rebounded from the low levels of 1982.

Retail sales of all firms associated with franchising reached an estimated $368 billion in 1983, or 32 percent of all U.S. retail sales, estimated at $1.2 trillion. Retail franchising accounts for 88 percent of all U.S. franchising receipts.

Retail sales of franchisors are expected to remain strong in 1984 as the economy enters the second year of recovery. Disposable income generated in part as a result of the Economic Recovery Tax Act of 1981, coupled with a manageable level of consumer debt outstanding, could provide the background for continued franchise retail sales gains.

As unemployment declines and confidence improves, liquid assets available to the consumer should stimulate the sale of big ticket items. Consequently, franchised retail sales should increase by nine percent to $401 billion in 1984, and account for 32 percent of total U.S. retail sales which are expected to reach $1.3 trillion.

Restaurants

After 1980, the franchised restaurant sector experienced marked structural changes as high interest rates and high construction costs prompted franchisors to scale down their plans and build smaller sized units. This decision also resulted in the construction of restaurants at a lower cost and in a shorter period of time. Conversion of independent

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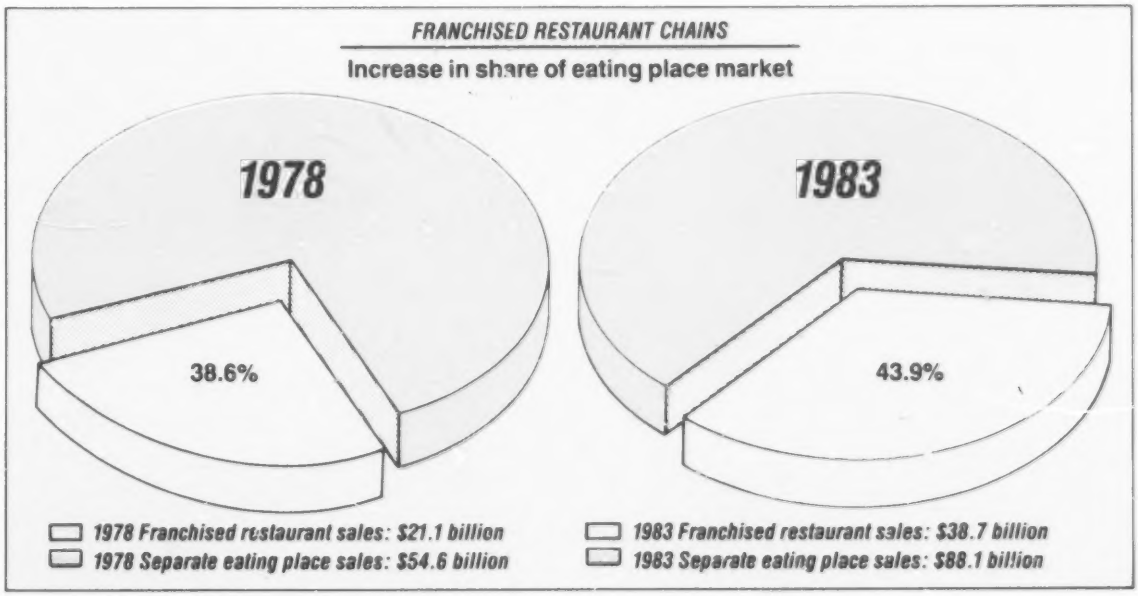
FRANCHISED RESTAURANT CHAINS
Increase in share of eating place market
1978
38.6%
1983
43.9%
1978 Franchised restaurant sales: $21.1 billion
1978 Separate eating place sales: $54.6 billion
1983 Franchised restaurant sales: $38.7 billion
1983 Separate eating place sales: $88.1 billion

Franchised restaurants of all types will continue to be the most popular sector of franchising, as upscaling of restaurants and menu items is stepped up.

units to franchising has also picked up, including restaurant sites within other retail chains or locations.

Sales of franchised restaurants of all types reached almost $39 billion in 1983, up 13 percent over a year earlier; they are expected to jump about 14 percent, to $44 billion in 1984.

Franchised restaurants numbered 64,176 in 1982, increased to 68,723 in 1983, and are expected to rise to almost 75,000 units in 1984. The highest concentrations of franchised restaurants continue to be in California, Texas, Ohio, and Florida.

Employment in the franchised restaurant sector was 1,815,086 in 1982, up from 1,664,170 a year earlier, a rise of nine percent. Employment in the franchised restaurant industry accounts for 37 percent of employment in the franchise system as a whole and should continue to rise in the next few years. Furthermore, franchised restaurant employees accounted for an estimated 38 percent of all persons employed in eating places in the United States.

Entry into the restaurant franchising system, mostly by small companies, continued in 1982 with a net gain of 18 franchisors, bringing the total to 458. During 1983, 11 franchisors with a total of 143 restaurants (106 franchisee-owned) went out of business, while 21 franchisors with a total of 262 restaurants (69 franchisee-owned), decided to abandon franchising as a method of marketing.

There were 14 big franchisors with over 1,000 units each in 1982, one more than the previous year. Combined, they represented 53 percent of all restaurants in the franchise system, or, 33,970 restaurants, of which 24,254 were franchisee-owned and 9,716 were company-owned. They also represented 59 percent of total franchised restaurant sales: $20 billion of which $14.2 billion were by franchisee-owned units.

As many foreign countries improve their standard of living and evolve into more service-oriented economies, receptiveness to American-style franchising will continue to create export opportunities for U.S. franchisors despite increased competition from local firms and other international firms.

In 1982, 57 restaurant franchisors operated 4,675 units in foreign coun-

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U.S. FRANCHISED RESTUARANTS*
Number of Establishments by State: 1982

State	Total	Company-Owned	Franchisee-Owned	State	Total	Company-Owned	Franchisee-Owned
Alabama	1,266	431	835	Nebraska	541	160	381
Alaska	86	1	85	Nevada	251	102	149
Arizona	895	283	612	New Hampshire	129	27	102
Arkansas	638	109	529	New Jersey	1,035	221	814
California	6,068	1,719	4,349	New Mexico	442	108	334
Colorado	1,098	342	756	New York	2,198	577	1,621
Connecticut	515	166	349	North Carolina	1,366	387	979
Delaware	115	41	74	North Dakota	152	9	143
District of Columbia	116	54	62	Ohio	3,360	1,240	2,120
Florida	3,052	1,088	1,964	Oklahoma	1,654	498	1,156
Georgia	1,923	823	1,100	Oregon	763	176	587
Hawaii	186	69	117	Pennsylvania	2,062	759	1,303
Idaho	226	21	205	Rhode Island	104	33	71
Illinois	2,870	958	1,912	South Carolina	905	308	597
Indiana	2,037	591	1,446	South Dakota	198	25	173
Iowa	929	193	736	Tennessee	1,512	527	985
Kansas	888	279	609	Texas	5,508	2,062	3,446
Kentucky	1,239	351	888	Utah	345	87	258
Louisiana	1,006	325	681	Vermont	52	3	49
Maine	151	37	114	Virginia	1,339	419	920
Maryland	754	307	447	Washington	975	308	667
Massachusetts	705	249	456	West Virginia	475	164	311
Michigan	2,498	779	1,719	Wisconsin	1,259	314	945
Minnesota	1,245	355	890	Wyoming	160	20	140
Mississippi	658	112	546				
Missouri	1,490	514	976				
Montana	220	9	211	TOTAL	59,659	18,740	40,919

Represents 92 percent of total establishments.
The remaining eight percent were unable to provide a geographic breakdown for this report.

With over 7,000 units, Canada continues to be the dominant market for U.S. franchisors despite its declining share of U.S. foreign outlets.

tries. Another 24 franchisors plan to extend their operations to foreign countries by the end of 1985.

Japan replaced Canada as the largest market for franchisors of restaurants; Canada is now in second place, followed by Australia and the United Kingdom.

For the second time since 1975, more units were repurchased in 1982 for company operation than were converted to franchisee-ownership. These buy-backs were primarily due to depressed economic conditions. In 1982, 475 units were repurchased for company-ownership, while 389 units were converted to franchisee-ownership.

Convenience stores

Convenience stores, built around speed and service, provide the multiple "fill-in" items that consumers need between their regular trips to the supermarkets.

Growing numbers of convenience stores are realizing extra sales by installing on their premises gasoline pumps, usually self-service.

In order to increase sales volume and compete with fast food restaurants, convenience stores are offering a wide variety of take-out foods such as hot and cold sandwiches, coffee, chicken, hot dogs, and an assortment of other dishes, precooked by the supplier and requiring only reheating or reconstituting in a microwave oven.

Despite intensified competition from supermarkets offering extended hours and Sunday shopping, and the decision of three franchisors of convenience stores to abandon the franchise system in 1982, sales still moved up almost four percent in 1983.

The three franchisors that dropped out of the franchise system in 1982 had a total of 1,400 stores with sales of $495 million. Consequently, the number of convenience stores in the franchise system dipped to 15,086 in 1983, down by 4.6 percent. Gains of almost 11 percent in sales and five percent in number of establishments are expected in 1984.

Food retailing

The retailing of food by specialty food shops, donut shops, ice cream stores, coffee services, donut shops, bakeries, cookie shops, candy stores, nut stores, and others, amounted to $8.5 billion in 1983, eight percent over the previous year; sales in 1984 are expected to reach $9.3 billion.

The number of establishments was slightly down in 1983 due to the departure of a large franchisor from the system. In 1984, the number of units is expected to rise to 16,115, a jump of three percent over the year before.

Two of the better-known groups in this category are donut shops and ice cream stores. In 1982, there were 20 franchisors of donut shops providing jobs for 29,217 persons. Sales and establishments for donut shops for the years 1982-84 are listed on page 000. The sales and units of 31 franchisors of ice cream stores, who in 1982 employed 41,116 persons, are listed on page 000.

Hotels and motels

Occupancy rates in the lodging industry should be about 66 percent in 1983 with a stronger showing in 1984. The average price per occupied room for hotels was $62 in 1982 and is expected to fluctuate around $68 in 1983. For motels, the average price per room was $41 in 1982, reaching $44 in 1983.

Construction of new lodging facilities is not expected to accelerate in the near future, primarily because rates of interest remain high. When new construction resumes, the pace will be somewhat slower than it was in the past, with downtown and airport locations having top priority.

Hotel, motel, and campground franchisors in 1983 represented 6,576 establishments, with receipts estimated at $12.3 billion. Receipts are expected to rise 8 percent in 1984 over 1983, reaching almost $13.4 billion.

INTERNATIONAL RESTAURANT FRANCHISING IN 1982
Location and Number of Establishments*

Major Activity	U.S. Firms	Total	Canada	United Kingdom	West. Europe	Japan	Other Asia	Australia	New Zealand	Caribbean	Africa	Mexico	Central America	South America
Chicken	6	1,483	13	358	32	406	114	217	39	109	118	56	11	10
Hamburger	14	2,362	947	122	323	548	104	173	17	83	0	0	24	21
Pizza	10	410	68	0	5	88	51	121	15	23	6	24	9	0
Mexican	6	52	31	0	0	0	0	4	0	16	0	0	1	0
Seafood	3	12	6	0	0	5	1	0	0	0	0	0	0	0
Pancakes	2	14	7	0	0	7	0	0	0	0	0	0	0	0
Steak	16	342	100	1	0	205	6	7	0	3	0	20	0	0
Sandwich	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	57	4,675	1,172	481	360	1,259	276	522	71	234	124	100	45	31

**Includes company-owned and joint ventures*
Source: U.S. Dept. of Commerce